

The First Microfinance Bank
Afghan Credit Support Program
FLAG International

SME LOAN OFFICER TRAINING FOR THE FIRST MICROFINANCE BANK: REPORT

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1. Background.

The First Microfinance Bank is planning to expand their activities and product offer adding SME lending to their current core microfinance business. At the time of the assignment general approaches to this new activity as well as key draft internal documents (loan procedures, loan request and loan application/analysis forms) were developed. A group of employees designated to perform as SME Loan Officers was identified, hired and exposed to specialized training. Afghanistan Credit Support Program, which assists The First Microfinance Bank in the implementation of SME lending activities, arranged external assistance to facilitate the improvement of technical skills of SME Loan Officers.

The assignment was planned, as outlined in the Scope of Work, to address the following areas:

- Understanding of the SME as borrowers of a commercial bank
- Understanding of the role of SME Loan Officer in the context of SME lending operations
- Understanding of the portfolio quality impact on the financial performance of the bank
- Learning the steps in the credit process to ensure the participants performance in terms of portfolio volume and quality required by the bank

The training program was implemented October 2-28, 2005.

2. Training Needs Assessment and the Choice of Training Methodology

2.1. Participants Education and Experience

Participants in the training have different education levels and experience. In terms of education, two have degrees (one in finance, another in computer technology), the third participant is a high-school graduate. Only one has job-related experience having worked as a microfinance loan officer for 9 months with the FMFB.

All three participants went through a formal week-long financial course.

2.2. Training Needs Assessment

Training needs assessment was performed through:

- Initial training audit (a questionnaire covering key areas of the training program)

- Written participants' expectations (which allow to define self-realized training needs)
- And a briefing meeting with ACSP and FMFB management involved

The results of the training audit can be summarized as follows¹:

1. Knowledge of loan product parameters: limited, loan parameters confused with the steps in the loan process
2. Knowledge of key areas of loan analysis: limited
3. Knowledge of Financial Statements: could name the statements (2 of 3 participants), one gave a correct description
4. Knowledge of Loan Officer productivity measures: poor

Additional information was provided in the Training Expectations whose analysis proved that the participants understand which areas they need more knowledge and skills in. Main ideas the participants mentioned in the Training Expectations are:

- How to analyze a business?
- How to better talk to clients?
- How to correctly implement loan policies?
- How to ensure the client is a good client for the bank? (many responses echoed the concern about ensuring clients are good borrowers FOR THE BANK)
- How to best talk to the client?
- To have a chance to work on computer forms

Finally, additional background information was obtained from ACSP and FMFB managers. Expectations of both ACSP and FMFB were specified. As agreed, the training was to address the following:

- Improvement of the technical skills of the group
- Internalization of SME lending procedures and processes
- Additionally, by the end of the training the group was expected to produce several valid loan applications likely to be accepted by the bank

The situation with SME lending at FMFB (a start up activity with many key elements of the process still in the development phase) made a formal gap analysis an unrealistic task. Instead, an approach was adopted to evaluate an existing level of the group's competence against generic requirements for their future job. Hence, the following main areas of training intervention were defined:

- Understanding and application of loan policies and process
- Loan analysis techniques with special attention to financial analysis
- Understanding of the financial statements formats and information contained therein

¹ Training Audit originals were made available to ACSP

- Client information collection and communication skills
- Delinquency issues and their impact on bank operations

2.3. Training Methodology

Based on the training needs assessment and the discussions and on-going inputs from ACSP, as well as on the requirements of the Scope of Work, the training was based on the following principles:

- training room time to be limited to necessary minimum for technical knowledge inputs
- training sessions to be based on interactive methods – discussions, case studies, exercises, group and individual work
- as soon as the process allowed, actual bank documentation (primarily Loan Procedures) to be used
- after initial theoretical inputs, the process should move to practical application through actual work with potential SME loan clients

The size of the group allowed for individual work with the participants and the whole program was as much practical training as it was individual coaching and advising. A mix of approaches and methodologies, which were applied, was optimal given the number of the participants and the overall position of the bank in the process of introduction of SME lending.

These approaches are reflected in the implemented training schedule (attached).

3. Training Process and Content

The initial week of training was dedicated to the overview of the loan process as adopted by FMFB. Apart from the discussion of the steps in the process itself, the participants also defined difficulties associated with each step, which informed further decisions as to the content of the subsequent training.

Besides the above, the following topics were covered:

- The role and responsibilities of a Loan Officer in a lending institution
- Loan officer communication skills
- Review of client eligibility criteria
- Practical application of Loan Request Form – screening interviews with 11 potential borrowers conducted at business sites

After client visits training room time was dedicated to discussions of the practical application of communication techniques applied during the interviews.

Subsequently, the key areas of credit analysis (the 5”C’s” of credit) as well were covered as well as the main sources of information to cover those areas.

Major stress was put on the financial topics. Questions covered were:

- Composition, content and interrelation between main financial statements
- Gathering information and constructing a Balance Sheet, an Income Statement and a Cash Flow projection
- Main financial ratios for loan evaluation
- Loan repayment schedule

For the training purposes an Excel based model for BS, IS, CF, loan schedule and financial ratios was offered, Generic benchmarks for financial ratios was adopted for the purposes of training which in the future could be adjusted by the bank depending on the actual levels of risk tolerance adopted in actual lending activities.

Above mentioned templates were used as an integral part of Loan Applications the team was working on. Out of 11 businesses prescreened at the Loan Request step, 8 were identified as worthy of full application follow-up.

Subsequently, 4 were chosen (reflecting the widest possible variety of cases – two wholesalers and two producers) and the participants went through the complete cycle of collecting information, filling out a Loan Application Form and performing a financial analysis². This involved another information collection site visit (in some cases a follow-up interview with a client at the office), and practical work on information analysis and formatting. The process was implemented as individual projects of each Loan Officer with oversight from the consultant and sharing of information within the group on an on-going basis.

As a result, the participants were ready to present preliminary Loan Applications to a mock Loan Committee by the end of the training. Out of the four projects, three objectively merit further consideration for financing.

4. Training Outcomes

In the consultant’s opinion the training outcomes adequately cover the goals set forth at the beginning of the process. Over the period, the participants made a noticeable progress in the areas, important for their further work as Loan Officers.

² On one of the cases, a local bakery, kind assistance was provided by FLAG staff

4.1. Training Outcomes: Knowledge

The participants have different levels of education (one – specialized financial education) and through the process of training they acquired/refreshed knowledge of the following:

- Credit analysis process and its steps
- Composition and content of financial statements; interrelation between them
- Financial ratios used for credit analysis
- Concept of delinquency and delinquency measurement ratios

4.2. Training Outcomes: Skills

The training was primarily skills oriented and the process involved immediate application of the information/knowledge transferred during the process. Key skills instilled are

- The use of prescribed procedures of client pre-screening, loan information collection and analysis assisted by adopted forms
- Financial information collection, formatting of financial statements, analysis of financial ratios
- Effective conducting of client interviews which involves improved communication skills

4.3. Training Outcomes: Attitudes

In this area the most noticeable changes were achieved in:

- increased comfort level with the overall SME loan process (“can do” feeling)
- assertiveness in the process of client interviews (no more fear to ask “uncomfortable” questions)
- understanding of and taking responsibility for the results of their performance vis-à-vis the goals of the bank
- additionally, by the end of training the group worked very much as a team

5. Further Steps and Recommendations

After training the participants are capable of supervised performance of the function of an SME Loan Officer. While the sum of skills and knowledge is adequate, they still need supervision/mentoring to ensure

- Deeper understanding of implications of the financial data
- Accuracy in the financial data presentation

Other areas (comfort level with the forms and procedures) will improve during the actual on-the-job application.

To ensure continuing building-up of the capacity of the group participants, the following could be recommended:

- Initial close process supervision by a designated bank staff
- A separate intensive short-term training on the formats, processes and procedures of SME lending as soon as these are finalized by the bank
- Ensuring a permanent feed-back from Loan Officers in the process of their actual work
- Providing additional local low-cost training in the areas of SME operations (e.g. FLAG SME training courses)
- Ensuring adequate work environment – e.g. access to computers

6. Attachments

6.1. Attachment 1. Training Schedule – Week 1

Day 1				
Time	Topic	Activities/Content	Expected Results	Techniques/Materials /Notes
1,5 hours	Introduction. Getting to Know Each Other. Training audit. Expectations	<ul style="list-style-type: none"> • Introduction of the consultant and the loan officers • Presentation of the general outline and the format of the work together • Training audit • Expectations 	<ul style="list-style-type: none"> • Set climate for the interaction for the duration of assignment • Get agreement and understanding of the format of assistance offered • Get information for TNA 	<ul style="list-style-type: none"> • Discussion • Training audit • Expectations
2 hours	Discussion of the role of a Loan Officer in a financial institution	<ul style="list-style-type: none"> • Brainstorming of specific activities a LO has to perform • Categorizing those to arrive at key areas of LO's responsibilities • Reference to the loan process of 	<ul style="list-style-type: none"> • Get LO's better understand key areas of their responsibilities • Get LO's realize the importance of their contribution into overall success of the 	<ul style="list-style-type: none"> • Discussion • Brainstorming • Generalization using a pre-prepared flipchart/whiteboard

		<ul style="list-style-type: none"> the bank How does LO's work contribute to the overall performance of the bank 	<ul style="list-style-type: none"> bank Refresh loan process 	
4 hours (finished at Client Check, subsequent steps will be reviewed later)	General overview of the Loan Process as stipulated by Loan Procedures	<ul style="list-style-type: none"> Review of individual steps in the loan process What is important at each step? What is easy to do? What is not so easy to do? 	<ul style="list-style-type: none"> Diagnose the level of participants' competence in different areas of their responsibilities Refresh and instill Loan Procedures 	<ul style="list-style-type: none"> Loan Procedures Individual work Reporting back Discussion
Day 2				
8 hours	Applying Loan Request Form	<ul style="list-style-type: none"> Visits to four client businesses 	<ul style="list-style-type: none"> Familiarize Los with draft Loan Request Form Practice client interview Practice preliminary selection of clients based on eligibility criteria and 	<ul style="list-style-type: none"> Draft Loan Request Form Client interview Feed back, discussion, analysis and recommendations to LOs

			target group definition <ul style="list-style-type: none"> Identify clients for further SME loan program enrollment 	
Day 3				
2 hours	Communication with Clients	<ul style="list-style-type: none"> What are the features of a professional LO? Review of key principles of effective communication Listening techniques Questioning techniques 	<ul style="list-style-type: none"> Understand key types of communication important in LO's work Learn and practice some communication techniques 	<ul style="list-style-type: none"> Presentation A set of handouts Role play
1 hour	SME Lending Program client eligibility criteria	<ul style="list-style-type: none"> Refresher of client eligibility criteria Quick refresher of the loan product 	<ul style="list-style-type: none"> Refresh client eligibility criteria and product characteristics Prepare for practical application in the field (interviews with potential 	<ul style="list-style-type: none"> Checklist of clients eligibility criteria Unallowable activities list

			clients)	
1 hour	Continuation of Loan Process review from Day 1	<ul style="list-style-type: none"> • Review of individual steps in the loan process • What is important at each step? • What is easy to do? • What is not so easy to do? 	<ul style="list-style-type: none"> • Diagnose the level of participants' competence in different areas of their responsibilities • Refresh Loan Procedures 	<ul style="list-style-type: none"> • Loan Procedures • Individual work • Reporting back • Discussion
Day 4				
8 hours	<ul style="list-style-type: none"> • Applying Loan Request Form • Collecting potential borrower information 	<ul style="list-style-type: none"> • Visits to four client businesses 	<ul style="list-style-type: none"> • Practice client interview • Practice questioning techniques • Practice preliminary selection of clients based on eligibility criteria • Identify clients for further SME loan program enrollment 	<ul style="list-style-type: none"> • Draft Loan Request Form • Client interview • Feed back, discussion, analysis and recommendations to LOs

Day 5				
8 hours	<ul style="list-style-type: none"> • Applying Loan Request Form • Collecting potential borrower information 	<ul style="list-style-type: none"> • Visits to four client businesses 	<ul style="list-style-type: none"> • Practice client interview • Practice questioning techniques • Practice preliminary selection of clients based on eligibility criteria and target group definition • Identify clients for SME loan program enrollment 	<ul style="list-style-type: none"> • Draft Loan Request Form • Client interview • Feed back, discussion, analysis and recommendations to LOs
Day 6				
3 hours	Delinquency – concept, measures, impact, management	<ul style="list-style-type: none"> • Definitions of delinquency and default • How DQ impacts a bank • What are the causes of DQ? 	<ul style="list-style-type: none"> • Los will have a solid understanding of the DQ concept, its causes and impact on the 	<ul style="list-style-type: none"> • Handouts • Exercises • Discussions

		<ul style="list-style-type: none">• DQ measurement• What are responses?	<p>financial organization</p> <ul style="list-style-type: none">• Los will learn key indicators of the portfolio quality measurements• Los will realize their primary responsibility in the DQ prevention and management	
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6.2. Attachment 2. Training Schedule – Week 2-4

	Day	Morning	Afternoon	Notes
Week 2	1	Client information collection*	<ul style="list-style-type: none"> • 5"C's" of Credit • Information sources • Information verification 	
	2	Client information collection	<ul style="list-style-type: none"> • Financial statements – format • Financial statements – interrelation 	Loan Application form needed
	3	Client Information collection	<ul style="list-style-type: none"> • Balance sheet – in depth 	Loan Application form needed
	4	Client information collection	<ul style="list-style-type: none"> • Income statement – in depth 	Loan Application form needed
	5	Client information collection	<ul style="list-style-type: none"> • Cash Flow – in depth • Financial analysis for loan evaluation 	Loan Application form needed
Week 3	1	Loan analysis	<ul style="list-style-type: none"> • Financial analysis for loan evaluation • Financial ratios benchmarks 	<ul style="list-style-type: none"> • Financial ratios benchmarks needed • Concurrently additional/mis-sing client information collection
	2	Loan analysis	<ul style="list-style-type: none"> • Business marketing information and analysis 	Concurrently additional/missing client information collection
	3	Loan analysis	<ul style="list-style-type: none"> • Business capacity – what to look into • Business capacity – pitfalls 	Concurrently additional/missing client information collection
	4	Loan analysis	<ul style="list-style-type: none"> • Borrower's character – what's involved • Where and how to collect and verify information 	Concurrently additional/missing client information collection
	5	Loan analysis	<ul style="list-style-type: none"> • External factors – what and how to take into consideration 	Concurrently additional/missing client information collection

Week 4	1	Finalizing loan application files	Group work on loan applications and analysis	Group work on loan applications and analysis
	2	Finalizing loan application files	Group work on loan applications and analysis	Group work on loan applications and analysis
	3	Finalizing loan application files	Group work on loan applications and analysis	Group work on loan applications and analysis
	4	Mock Loan Committee Meeting – loan applications presentation	Discussion of the Loan Committee meeting and its decisions/recommendations – further steps	
	5	<ul style="list-style-type: none"> • Review of the training process – what we still need most • Training audit 	Awarding certificates	

6.3. Attachment 3. Handouts – separate file

6.4. Attachment 4. Financial Analysis Computer Model for 4 cases – separates file

6.5. Attachment 5. Loan Application forms – 4 businesses